

Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

Discontinued Operations

On April 3, 2000, the Company completed the sale of its subsidiary, Cherry Semiconductor Corporation, to Semiconductor Components Industries, LLC (a subsidiary of SCG Holding Corporation which does business under the trade name ON Semiconductor™) for approximately \$250 million in cash, subject to certain adjustments.

Operating results, net assets and cash flows of Cherry Semiconductor have been segregated as discontinued operations in the accompanying consolidated financial statements. Net earnings of Cherry Semiconductor were \$6.4 million (\$.63 per diluted share) on sales of \$128 million for the twelve months ended February 29, 2000 and \$4.9 million (\$.40 per diluted share) on sales of \$117 million for the year ended February 28, 1999.

Prior year results of operations, financial position and cash flows noted in the following discussion have been restated to reflect the current year's presentation of Cherry Semiconductor as a discontinued operation.

Continuing Operations

The following table sets forth, for the periods indicated, the percentage of total sales represented by the line items reflected in the Company's consolidated statements of operations:

<i>Years ended the last day of February,</i>	<i>2000</i>	<i>1999</i>	<i>1998</i>
Net Sales	100.0%	100.0%	100.0%
Cost of sales	74.5	72.7	74.0
Gross profit	25.5	27.3	26.0
Operating expenses	22.9	21.5	21.0
Earnings from operations	2.7	5.8	5.1
Other income, net	0.4	0.3	0.4
Interest expense, net	0.8	0.2	0.2
Earnings before			
income taxes	2.3	5.8	5.2
Income tax provision	0.7	2.0	2.0
Net earnings from			
continuing operations	1.6	3.9	3.2

Fiscal 2000 vs. Fiscal 1999

Sales for fiscal 2000 were \$360.7 million, up slightly from fiscal 1999's sales of \$359.9 million. Sales by our domestic operations increased 5.7 percent while foreign sales reflected a decrease of 4.5 percent. Underlying the decline in foreign sales was a modest 2.4 percent sales increase when measured in the currencies in which these foreign locations operate. This increase, however, was more than offset by weakening of these currencies, principally the German mark, against the U.S. dollar.

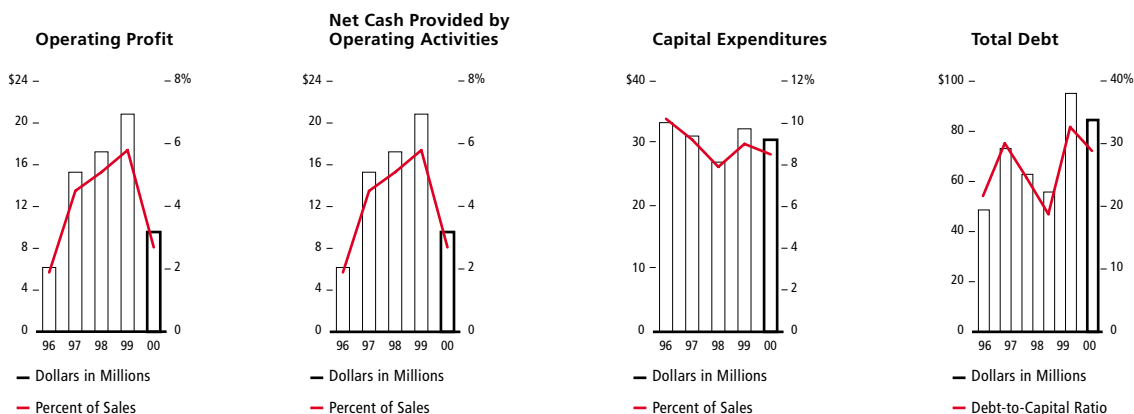
Sales for the Automotive Switches and Modules segment grew 4.7 percent to \$166.6 million which represents 46 percent of total consolidated sales. Much of this increase is attributable to the reduction in fiscal 1999 sales which resulted from a strike against General Motors.

Sales for the Computer Keyboards segment totaled \$100.2 million and decreased 3.1 percent from last year. Sales increased in unit volume, but this increase was more than offset by the stronger dollar. Competitive pricing, particularly on standard keyboards, also served to offset some of the unit volume increase. Sales of the Advance Performance keyboards continued to grow and now represent just over 25 percent of total keyboard sales up from 23 percent last year.

Sales for our Switches and Controls segment decreased 3.6 percent to \$93.9 million. Sales of our switch products, which are primarily designed for the appliance and office equipment markets, account for approximately 80 percent of this segment's total. Sales of these switch products increased 1.2 percent to \$77.2 million.

Gross profit margins decreased to 25.5 percent of sales in fiscal 2000 from 27.3 percent last year. The major cause of the reduced gross profit margin was production difficulties experienced at the domestic automotive operation in the second half of the year. This resulted in increased manufacturing costs to meet customer orders.

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Operating expenses of \$82.4 million increased 6.5 percent during fiscal 2000. As a percent of sales, operating expenses increased to 22.9 percent up from 21.5 percent last year. Spending increases on engineering initiatives to develop and broaden the Company's Advanced Performance keyboard, sensor and electronic controls product offerings was a major contributor to this increase. The Company also incurred severance costs during the year in connection with changes in personnel, particularly at the domestic automotive operation.

Other income was \$1.5 million for fiscal 2000 compared with \$1.0 million for fiscal 1999. An increase in earnings of the Company's Japanese joint venture was largely responsible for this change.

Net interest expense of \$2.9 million increased substantially from last year. The increase is due to higher average borrowings in fiscal 2000 resulting from the Company's Dutch tender which was completed in December, 1998.

The effective tax rate for fiscal 2000 was 28.7 percent compared with 33.7 percent last year. The decreased rate results from increased foreign tax credits which can be utilized as a result of a dividend declared at the Company's German subsidiary.

Fiscal 1999 vs. Fiscal 1998

Sales for fiscal 1999 of \$359.9 million grew 5.6 percent over the prior year. Sales from our international operations grew 17.4 percent and accounted for approximately 54 percent of worldwide sales. Sales from domestic operations decreased 5.4 percent and accounted for 46 percent of worldwide sales.

Sales for the Automotive Switches and Modules segment increased 7.7 percent to \$159.1 million in fiscal 1999 compared with \$147.7 in fiscal 1998. The sales growth came from foreign operations which account for 48.1 percent of total segment sales, up from 36.6 percent last year. In Europe, the Company has established itself as a leading supplier of electronic switch assemblies to several door-latch and door-lock manufacturers. Domestically, sales decreased, largely as a result of a strike against General Motors, but also as a result of new product introductions being out-paced slightly by programs which were due to expire.

Sales for the Computer Keyboards segment rose to \$103.3 million from \$98.2 million, an increase of 5.2 percent. Unit growth occurred for standard keyboards which are most commonly purchased as computer users upgrade their desktop systems as well as for advanced performance keyboards which are most commonly used in commercial applications.

Foreign sales account for 78.6 percent of the segment total with the majority of those occurring in Europe.

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Sales for the Switches and Controls segment grew 2.7 percent to \$97.5 million in fiscal 1999. Approximately 80 percent of this segment's sales consist of our traditional switches which are sold to appliance and office equipment manufacturers. Sales of switch products were up slightly over last year. Our line of electronic interface controls also had modest growth; however, fiscal 1999 did provide us with some additional design wins for future years.

Gross profit margins increased to 27.3 percent from 26.0 percent. The primary factors are the increased utilization of our international manufacturing facilities coupled with cost reductions at all operations.

Consolidated operating expenses increased 8.3 percent to \$77.4 million. Increased engineering spending resulted from the Company's efforts to introduce additional products to the market. Additional marketing efforts were also undertaken to increase market awareness of these product offerings, resulting in higher distribution costs. Administration expense increased largely as a result of facility relocations and software conversions as we generally update our facilities and systems.

Other income decreased 17.8 percent to \$982 thousand. Increased customer tooling income and investment grants from the German government were more than offset by foreign exchange losses on cross currency transactions.

Net interest expense of \$790 thousand increased .2 percent over fiscal 1998. Borrowings of \$36.6 million were used to finance the Company's Dutch tender which was completed on December 23, 1998.

The effective tax rate for fiscal 1999 was 33.7 percent compared with 38.5 percent last year. The decreased rate results largely from a nonrecurring tax credit derived from the payment of a dividend from the Company's subsidiary in England.

Liquidity and Capital Resources

Cash generated from operating activities, available cash balances and selected borrowings are the Company's major sources of funds for investments. The company uses its cash balances and other sources of liquidity to invest in its current businesses and new market opportunities. These investments, along with other actions taken to improve the profit margins of current businesses, are designed to continue the improvement in the Company's financial performance.

Net cash provided by operating activities totaled \$32.5 million in fiscal 2000 compared with \$33.8 million in fiscal 1999. The primary components of net cash provided by operating activities include the Company's net earnings adjusted for non-cash revenues and expenses; the timing of cash flows relating to operating expenses, sales, and income taxes; and the management of inventory levels.

The Company invested \$28.0 million in facilities and equipment in its continuing effort to take advantage of improvements in manufacturing technologies and increase manufacturing capacities when such expenditures were warranted.

As a result of positive cash, including \$6.8 million from the Company's discontinued semiconductor operations, debt decreased to \$84.5 million at February 29, 2000. The Company's debt-to-capital ratio, net of cash balances decreased from 32.7 percent to 28.9 percent.

In April, 2000 the Company completed the sale of its semiconductor subsidiary for \$250 million. The net proceeds from the sale, after transaction costs and income taxes, are estimated at \$175 million. The Company has already used a portion of the proceeds to reduce borrowings under various credit facilities and expects to prepay its senior unsecured notes.

At February 29, 2000, the Company had unused lines of credit available of approximately \$24.0 million for domestic operations and \$31.9 million for foreign operations. These credit facilities, together with funds generated from future earnings should be sufficient to finance the Company's operations.

Six-Year Statistics

(Dollars in thousands except share and employee data)

Year ended the last day of February	2000	1999	1998	1997	1996	1995
Summary of Operations						
Net sales	\$ 360,727	359,881	340,838	339,792	327,962	263,741
Gross profit	\$ 92,002	98,260	88,747	85,721	75,693	68,380
Operating expenses	\$ 82,439	77,409	71,507	70,431	69,526	57,570
Profit from continuing operations	\$ 9,563	20,851	17,240	15,290	6,167	10,810
Other income, net	\$ 1,542	982	1,195	2,796	2,862	1,671
Earnings before interest and taxes	\$ 11,105	21,833	18,435	18,086	9,029	12,481
Interest expense, net	\$ 2,877	790	716	1,158	1,753	2,372
Earnings from continuing operations						
before income taxes	\$ 8,228	21,043	17,719	16,928	7,276	10,109
Income tax provision	\$ 2,363	7,097	6,821	6,189	1,471	2,767
Net earnings from						
continuing operations	\$ 5,865	13,946	10,898	10,739	5,805	7,342
As a percent of sales	1.6%	3.9%	3.2%	3.2%	1.8%	2.8%
Earnings from discontinued operations,						
net of income taxes	\$ 6,390	4,906	6,505	5,175	5,446	7,481
Net earnings	\$ 12,255	18,852	17,403	15,914	11,251	14,823
Return on average stockholders' equity	7.2%	10.7%	9.9%	9.8%	7.4%	12.3%
Other Statistics						
Average shares outstanding						
Basic	10,122,279	12,105,269	12,445,927	12,366,471	12,287,459	10,882,950
Diluted	10,184,674	12,196,670	12,547,910	12,425,152	12,342,971	10,964,277
Basic earnings per share:						
Continuing operations	\$.58	1.15	.88	.87	.47	.67
Discontinued operations	\$.63	.41	.52	.42	.45	.69
Basic net earnings	\$ 1.21	1.56	1.40	1.29	.92	1.36
Diluted earnings per share:						
Continuing operations	\$.57	1.15	.87	.86	.47	.67
Discontinued operations	\$.63	.40	.52	.42	.44	.68
Diluted net earnings	\$ 1.20	1.55	1.39	1.28	.91	1.35
Dividends per share	\$ —	—	—	—	—	—
Capital expenditures, net	\$ 27,601	31,830	26,907	30,976	32,207	25,006
Depreciation and amortization	\$ 24,788	23,761	21,460	20,609	17,671	14,872
Net cash provided by						
operating activities	\$ 32,468	33,826	30,230	37,629	21,801	14,477
Financial Position						
Cash and equivalents	\$ 13,602	13,720	13,236	7,944	5,118	7,858
Working capital (1)	\$ 59,676	49,338	38,055	26,559	27,782	34,498
Current ratio (1)	1.5	1.9	1.6	1.4	1.4	1.6
Net assets of discontinued operations	\$ 78,738	79,161	70,641	71,950	67,529	44,781
Total assets	\$ 312,118	320,496	295,486	283,458	293,718	249,211
Long-term debt	\$ 4,732	75,389	33,393	37,009	44,237	25,863
Total debt	\$ 84,531	95,148	55,803	62,866	73,135	48,658
Stockholders' equity	\$ 174,151	167,669	183,454	168,076	158,292	147,627
Stockholders' equity per share	\$ 17.28	16.47	14.71	13.54	12.83	12.03
Debt to capital ratio (debt net of cash)	28.9%	32.7%	18.8%	24.6%	30.1%	21.7%
Per Employee Data						
Average number of employees	3,491	3,523	3,452	3,433	3,276	2,896
Net sales	\$ 103,331	102,152	98,736	98,978	100,111	91,071
Average assets employed	\$ 67,991	66,162	63,203	63,749	65,723	62,789

(1) Net assets of discontinued operations are excluded from the working capital and current ratio for fiscal 1995–1999 to eliminate distortions. For fiscal 2000, the net assets were included so that they matched accelerations of long term debt to current maturities that were directly related to the sale of the discontinued operation.

Consolidated Statements of Earnings

(Dollars in thousands except share and per share data)

Year ended the last day of February	2000	1999	1998
Sales and Costs			
Net sales	\$ 360,727	\$ 359,881	\$ 340,838
Cost of products sold	268,725	261,621	252,091
Gross profit	92,002	98,260	88,747
Expenses			
Research and engineering	23,957	21,809	21,606
Distribution	24,922	24,707	23,132
Administration	33,560	30,893	26,769
Operating expenses	82,439	77,409	71,507
Earnings			
Profit from continuing operations	9,563	20,851	17,240
Other income, net – Note E	1,542	982	1,195
Earnings before interest and taxes	11,105	21,833	18,435
Interest expense, net – Note E	2,877	790	716
Earnings from continuing operations before income taxes	8,228	21,043	17,719
Income tax provision – Note D	2,363	7,097	6,821
Net earnings from continuing operations	5,865	13,946	10,898
Earnings from discontinued operations, net of income taxes – Note C	6,390	4,906	6,505
Net earnings	\$ 12,255	\$ 18,852	\$ 17,403
Basic Earnings Per Share – Note N			
Continuing operations	\$.58	\$ 1.15	\$.88
Discontinued operations	.63	.41	.52
Basic net earnings	\$ 1.21	\$ 1.56	\$ 1.40
Diluted Earnings Per Share – Note N			
Continuing operations	\$.57	\$ 1.15	\$.87
Discontinued operations	.63	.40	.52
Diluted net earnings	\$ 1.20	\$ 1.55	\$ 1.39
Average Shares Outstanding – Note N			
Basic	10,122,279	12,105,269	12,445,927
Diluted	10,184,674	12,196,670	12,547,910

Consolidated Statements of Comprehensive Income

(Dollars in thousands except share and per share data)

Year ended the last day of February	2000	1999	1998
Net earnings	\$12,255	\$18,852	\$17,403
Other comprehensive income, net of tax – Note O			
Foreign currency translation adjustments	(4,425)	1,379	(2,635)
Other comprehensive income	(4,425)	1,379	(2,635)
Comprehensive income	\$ 7,830	\$20,231	\$14,768

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Balance Sheets

(Dollars in thousands except share and par value data)

<i>The last day of February</i>	2000	1999
Assets		
Current Assets:		
Cash and equivalents	\$ 13,602	\$ 13,720
Receivables, less allowances of \$2,181 and \$1,659, in 2000 and 1999, respectively	48,019	53,003
Inventories – Note F	37,317	33,201
Prepaid expenses and other current assets	4,889	7,391
Net assets of discontinued operations – Note C	78,738	79,161
Total Current Assets	182,565	186,476
Land, Buildings and Equipment at Cost:		
Land	3,076	3,265
Buildings and improvements	64,749	71,298
Machinery and equipment	211,142	214,208
Construction in progress	12,527	7,625
	291,494	296,396
Less: accumulated depreciation	175,136	174,755
Total Land, Buildings and Equipment, net	116,358	121,641
Investment in affiliates and other assets, net – Note A	13,195	12,379
Total Assets	\$312,118	\$320,496
Liabilities and Stockholders' Equity		
Current Liabilities:		
Short-term debt – Note G	\$ 19,014	\$ 17,458
Accounts payable	16,487	11,926
Payroll related accruals	11,085	11,206
Other accruals	12,648	13,184
Income taxes	2,870	1,902
Current maturities of long-term debt – Note G	60,785	2,301
Total Current Liabilities	122,889	57,977
Long-term debt – Note G	4,732	75,389
Deferred income taxes, net	7,589	16,508
Deferred credits	2,757	2,953
Stockholders' Equity – Note A:		
Common stock, \$1.00 par value		
Authorized 30,000,000 shares;		
issued and outstanding, including shares in treasury –		
12,574,909 in 2000 and 12,521,743 in 1999	12,575	12,522
Additional paid-in capital	43,546	42,994
Retained earnings	158,867	146,612
Accumulated other comprehensive income	(2,237)	2,188
	212,751	204,316
Less: cost of common stock held in treasury,		
2,494,926 shares in 2000 and 2,340,926 shares in 1999	(38,600)	(36,647)
Total Stockholders' Equity	174,151	167,669
Total Liabilities and Stockholders' Equity	\$312,118	\$320,496

The accompanying notes are an integral part of the consolidated financial statements.

Notes to Consolidated Financial Statements

(Dollars in thousands except share data and as otherwise stated)

Note A: Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosures. Actual results could differ from these estimates.

Revenue Recognition

The company recognizes revenue when title passes to its customers, which generally is at the time of shipment.

Investment in Affiliates

The Company accounts for its investments in 50% owned affiliates in Japan and India by the equity method of accounting. Retained earnings at February 29, 2000 include \$8,708 representing the Company's share of the undistributed earnings of these unconsolidated affiliates.

Cash and Equivalents

Cash and equivalents consist of cash and highly liquid securities with original maturities of three months or less. The carrying amount approximates fair value.

Inventories

Inventories are valued at the lower of cost or market. Cost is determined by the last-in, first-out ("LIFO") method for approximately 53% and 46% of the Company's inventories as of the last day of February 2000 and 1999, respectively. For the remaining inventories, cost is determined by the first-in, first-out ("FIFO") method. Inventory costs include material, labor and manufacturing overhead.

Land, Buildings and Equipment

Land, buildings and equipment are carried at cost or, in the case of capitalized leases, at the lower of the present value of minimum lease payments or the fair value of the leased property. For financial reporting purposes, depreciation expense is provided on a

straight-line basis using estimated useful lives of 5 to 50 years for buildings and improvements and 3 to 12 years for machinery and equipment. Depreciation expense was \$24,683, \$23,655 and \$21,348 for fiscal 2000, 1999 and 1998, respectively. Accelerated depreciation methods are generally used for tax purposes.

Expenditures for maintenance, repairs and renewals of minor items are charged to expense as incurred. Major renewals and improvements are capitalized. Upon disposition, the cost and related accumulated depreciation are removed from the accounts and the resulting gain or loss is reflected in earnings for the period.

Income Taxes

The provision for income taxes includes federal, foreign, state and local income taxes currently payable and those deferred because of temporary differences between the financial statement and tax bases of assets and liabilities.

The Company has not recorded deferred income taxes applicable to certain undistributed earnings of foreign subsidiaries and affiliates that are indefinitely reinvested. Federal income taxes on distribution of these earnings, if any, would not be significant.

Currency Translation

Assets and liabilities of foreign operations are translated into U.S. dollars at year-end rates of exchange. Profit and loss items are translated at the average exchange rates prevailing during the year. Resulting translation adjustments are reported separately in Stockholders' Equity, net of interperiod tax allocations.

Research and Development

Research and development ("R&D") costs are expensed as incurred. R&D expense was \$11,774, \$12,035 and \$10,810 for fiscal 2000, 1999 and 1998, respectively.

Earnings Per Share and Capital Stock

Basic earnings per share ("EPS") excludes dilution and is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company.

Notes to Consolidated Financial Statements

(Dollars in thousands except share data and as otherwise stated)

On June 17, 1999 the Company's stockholders' approved the charter amendment reclassifying the previous two classes of common stock to one class of voting common stock. The stockholders' equity classifications affected by this change have been retroactively restated to reflect one class of common stock.

In December 1998, the Company concluded a "Dutch Auction" self-tender offer and acquired 2,340,926 shares at an aggregate cost of \$36,647. On March 1, 1999, the Company announced a program to repurchase from time to time during the next year, depending on market conditions and other factors, up to 250,000 shares of its common stock on the open market or through privately negotiated transactions at the then prevailing market prices. During fiscal 2000, 154,000 shares were repurchased at an aggregate cost of \$1,953. The shares purchased are accounted for as treasury stock and may be used for general corporate purposes.

Stock-Based Compensation

In fiscal 1997, the Company adopted the disclosure-only provisions of Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation". SFAS No. 123 encourages, but does not require, a fair value based method for determining expense related to stock-based compensation. As allowed by the standard, the Company continues to account for its stock-based compensation using the intrinsic value method prescribed under the prior standard of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations.

Long-Lived Assets

The Company continually evaluates whether events and circumstances have occurred that indicate the remaining estimated useful lives of its intangibles and other long-lived assets may warrant revision or that the remaining balance of such assets may not be recoverable. The Company uses an estimate of the related undiscounted cash flows over the remaining life of the asset to measure whether the asset is recoverable. If the fair value is less than the carrying amount of the asset, a loss is recognized for the difference.

Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentation.

Note B: New Accounting Pronouncements

In June 1999, the Financial Accounting Standards Board issued SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities – Deferral of Effective Date of FASB Statement No. 133." This statement delayed the required implementation of SFAS No. 133 to fiscal years beginning after June 15, 2000. SFAS No. 133 requires all derivatives to be recorded on the balance sheet at fair value. The Company is assessing the effect of SFAS No. 137 and currently believes it will not have a material effect on its earnings or financial position when it is adopted in fiscal 2002.

In December 1999, the staff of the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements." SAB No. 101 summarizes the SEC staff's views in applying generally accepted accounting principles to the recognition of revenues. The Company has evaluated the impact of the reporting requirements of SAB No. 101 and has determined that there will be no material impact on its consolidated results of operations, financial position or cash flows.

Note C: Discontinued Operation

On March 9, 2000 the Company announced that it had signed a definitive agreement to sell its subsidiary, Cherry Semiconductor Corporation to Semiconductor Components Industries, LLC, a subsidiary of SCG Holding Corporation, which does business under the trade name, ON Semiconductor™. The transaction was structured as a sale of all of the common stock of Cherry Semiconductor Corporation for a purchase price of \$250 million, subject to adjustment in certain circumstances. The sale was completed on April 3, 2000. The Company expects to record a net gain after income taxes of approximately \$90 million in the first quarter of fiscal 2001. The Board of Directors of the Company approved the stock purchase agreement and the related transaction. Accordingly, the Company reported the Cherry Semiconductor Corporation results of operations as discontinued operations and restated all years presented. Net assets relating to the sale have been segregated on the balance sheets presented.

Notes to Consolidated Financial Statements

(Dollars in thousands except share data and as otherwise stated)

Certain information with respect to discontinued operations is summarized as follows:

Year ended the last day of February

	2000	1999	1998
Net sales	\$128,295	\$116,827	\$113,035
Earnings from discontinued operations:			
Before income taxes	8,677	7,309	9,668
Income tax provision	2,287	2,403	3,163
Net earnings	\$ 6,390	\$ 4,906	\$ 6,505

Net assets of discontinued operations as of the last day of February:

	2000	1999
Assets		
Cash	\$ 214	\$ 136
Receivables	17,167	16,903
Inventory	20,340	20,467
Refundable income taxes	2,647	1,544
Prepaid expenses and other current assets	3,257	2,076
Property, plant and equipment, net	56,763	57,676
Other assets	1,028	1,112
Total Assets	101,416	99,914
Liabilities		
Accounts payable	7,675	9,476
Payroll related accruals	2,073	1,623
Other accruals	5,111	1,934
Deferred taxes	7,819	7,720
Total Liabilities	22,678	20,753
Net assets of discontinued operations	\$ 78,738	\$79,161

Note D: Income Taxes

The sources of earnings before income taxes are as follows:

Year ended the last day of February

	2000	1999	1998
Earnings before income taxes			
United States	\$(13,263)	\$(2,640)	\$ 4,010
Foreign	21,491	23,683	13,709
Provisions for income taxes			
Current: Federal and state	\$ (247)	\$(1,609)	\$ 706
Foreign	8,828	8,311	4,464
Current provision	8,581	6,702	5,170
Deferred: Federal and state	(5,872)	(277)	1,019
Foreign	(346)	672	632
Deferred provision	(6,218)	395	1,651
Total income tax provision	\$ 2,363	\$ 7,097	\$ 6,821

Reconciliation of the differences between income taxes computed at federal statutory tax rates and the consolidated provisions for income taxes are as follows:

Year ended the last day of February

	2000	1999	1998
Income taxes computed at federal statutory tax rates	\$ 2,880	\$7,365	\$6,202
Foreign tax rate differentials	1,627	1,396	387
Foreign tax rebate coincident with repatriation of foreign earnings	(1,133)	(737)	—
Research and development tax credit	(122)	(306)	(48)
Current taxation of foreign earnings, net of foreign tax credit	(3)	(347)	(100)
State tax provisions, net of federal benefits	(289)	(78)	500
Equity in earnings of unconsolidated affiliates	(267)	(95)	(89)
Other, net	(330)	(101)	(31)
Consolidated provisions	\$ 2,363	\$7,097	\$6,821

For income tax reporting at February 29, 2000, the Company has state tax credit carryforwards of approximately \$2,403 that expire in the year 2005. The Company also has available research tax credits of \$342, which expire in 2015 and alternative minimum tax carryforwards of \$483 that are available to reduce future regular income taxes over an indefinite period. In addition, the Company has state tax credit carryforwards of approximately \$111 and state net operating loss carryforwards of approximately \$197 that will expire from 2014 to 2020. The carryforwards will be available to reduce future income tax liabilities.

In fiscal 2000, the Company's subsidiary in Germany remitted a dividend of \$16,325 that resulted in a net tax benefit of \$1,264. In fiscal 1999, the Company's subsidiary in England remitted a dividend of \$8,695 that resulted in a net tax benefit of \$737.

Notes to Consolidated Financial Statements

(Dollars in thousands except share data and as otherwise stated)

The tax effects of the significant temporary differences that comprise the deferred tax liabilities and assets follows:

Year ended the last day of February	2000	1999
Liabilities		
Book versus tax basis of depreciable assets	\$ 9,823	\$13,055
Foreign currency translation	—	1,969
Undistributed earnings of foreign subsidiaries	776	—
Other	1,882	2,809
Gross deferred tax liabilities	12,481	17,833
Assets		
Tax credits and loss carryforward	3,228	—
Reserves and nondeductible accruals	2,985	2,372
Compensation related accruals	1,411	1,310
Foreign currency translation	1,276	—
Undistributed earnings of foreign subsidiaries	—	1,038
Inventory valuation	947	748
Other	1,024	221
Valuation allowance for deferred tax assets	(353)	(233)
Net deferred tax assets	10,518	5,456
Net deferred tax liability	\$ 1,963	\$12,377

The valuation allowances noted above relate to noncurrent tax assets for net operating loss carryforwards due to the uncertainty of realizing the benefit of certain foreign carryforwards. No other valuation allowances are deemed necessary.

Note E: Supplementary Income Statement Information

Year ended the last day of February	2000	1999	1998
Other Income (Expense):			
Earnings of affiliates	\$ 763	\$ 271	\$ 254
Investment grants	305	469	278
Tooling income	165	899	408
Foreign exchange	349	(426)	252
Gain (loss) on sale of assets	69	(544)	47
Other, net	(109)	313	(44)
Other income, net	\$1,542	\$ 982	\$1,195
Interest expense	\$3,117	\$1,518	\$1,196
Interest income	(240)	(728)	(480)
Interest expense, net	\$2,877	\$ 790	\$ 716

Note F: Inventories

The last day of February	2000	1999
Inventories		
Raw materials	\$ 5,352	\$ 4,662
Component parts	12,868	8,230
Work-in-process	8,422	8,070
Finished goods	10,675	12,239
Total inventories	\$37,317	\$33,201
Excess of replacement cost over the stated value of LIFO inventories	\$ 6,201	\$ 4,528

Note G: Debt

The last day of February	2000	1999
Short-term Debt		
(With domestic and foreign banks)		
Bank loans outstanding, unsecured	\$19,014	\$17,458
Weighted average interest rate	5.9%	4.6%
Long-term Debt		
Foreign obligations:		
Construction, mortgage and equipment loans (at 4% to 5.5%, secured by real estate in the amount of \$8 million in the Federal Republic of Germany) due in periodic installments through March 2007	\$ 5,288	\$ 7,712
Capital lease obligations payable in installments through December 2000 with a weighted average interest rate of 1.23%	424	1,044
Domestic obligations:		
Equipment loans at 4%, secured in the amount of \$1,000, due in periodic installments through October 2005	805	934
Senior unsecured notes, at 6.99%, due in 2007, that will be paid off in September, 2000	25,000	25,000
Borrowings under unsecured revolving credit agreement with interest at LIBOR plus .375% to .625%, prime rate or competitive bid rates	34,000	43,000
	65,517	77,690
Less current maturities	60,785	2,301
Long-term debt	\$ 4,732	\$75,389

The following principal payments, exclusive of capitalized lease payments, are required during the next five fiscal years: 2001 – \$60,360; 2002 – \$765; 2003 – \$771; 2004 – \$777; 2005 – \$783; thereafter – \$1,636.

In September, 1999 the unsecured, multicurrency revolving credit agreement was increased from \$65 million to \$75 million. Preceding the sale of Cherry Semiconductor Corporation on April 3, 2000, two participants withdrew from the revolving credit agreement and the line was reduced to \$61 million on March 31, 2000. Also as a result of the sale, the \$34 million in borrowings outstanding at February 29, 2000 were reclassified as current maturities since the debt balance was paid subsequent to year end from the sale proceeds. The interest rate on this agreement is the prime rate or, depending upon the Company's financial performance, LIBOR plus .375% to .625%. The facility has a competitive bid option that can result in interest rates below the stated facility rates. The facility fee is also dependent upon the Company's financial performance and ranges from 1/8 of 1% to 2/10 of 1% of the